

CHINA, THE WTO, AND THE UNITED STATES

Harry Harding
Dean
Elliott School of International Affairs
The George Washington University

Testimony before the
U.S. Trade Deficit Review Commission

Washington, D.C.
February 24, 2000

I am honored by the opportunity to testify before you today. In the short space of time I have available, let me comment briefly on the three issues in which I understand you are particularly interested:

- Why has China sought membership in the WTO? Why was it willing to make significant concessions to gain membership?
- What are the implications of China's membership in the WTO for American interests?
- And should Congress grant China permanent normal trade relations, as provided by our bilateral agreement on the terms of China's membership in the WTO?

China and the WTO

China's willingness to join the WTO, even on relatively stringent terms, is a reflection of a longer-standing national strategy. In the late 1970s, Beijing's post-Mao leadership concluded that China could achieve its goals of national wealth and power only through greater participation in what they then would have called the international capitalist economy. The alternative strategies -- links primarily with the socialist economies led by the Soviet Union, and attempts at national economic self-reliance -- had not proved effective in promoting efficient, sustained economic modernization.

Despite the significant economic gains of the last twenty years, current Chinese leaders have now concluded that further progress requires even deeper integration with the international economy, even if that proves profoundly challenging to inefficient economic enterprises, and even if it means increased levels of foreign involvement in the Chinese economy and increased foreign influence over Chinese society. Thus, despite considerable internal debate, they agreed to many of the market opening measures demanded by the United States and other nations as the price for Chinese membership in the WTO. Indeed, reform-minded leaders may have used the WTO negotiations as a way of forcing market-opening measures on a reluctant economic bureaucracy.

To a degree, too, Chinese leaders have seen an agreement with Washington over WTO as a way of bolstering their relations with the United States. At the beginning of the year, their objective was to maintain the positive momentum that seemingly had been achieved by the twin summits of 1997-98. Then, their objective was to halt the deterioration in the bilateral relationship that was produced by the crisis in Kosovo,

the U.S. bombing of the Chinese embassy in Belgrade, and the subsequent anti- American demonstrations outside U.S. diplomatic properties in China.

Implications for the United States

We need a realistic assessment of the implications of China's membership in the WTO for American interests.

- Although to some degree motivated by a short-run desire to improve relations with the United States, the principal purpose of China's entry into the WTO is to enhance China's economic efficiency and thereby to increase China's national wealth and power. Some people, both in the U.S. and in China, believe that this will inevitably produce greater strategic competition between the two countries. On the other hand, it is equally plausible that the greater economic interdependence between China and the United States will give each country a stake in maintaining a stable relationship.
- The terms of China's membership into the WTO are not perfect. Obviously, we might have liked deeper tariff reductions in some areas, greater opportunities for foreign investors in others, and faster timetables for implementation in still others. Nonetheless, the agreement goes far beyond what many had expected would be possible at the beginning of 1999, let alone after the downturn in U.S.-China relations in the middle of the year. It may not be an ideal agreement, but it is a good one. For the first time, China's foreign economic policies will be subjected to multilateral regulation. And further rounds of WTO negotiations will offer the opportunity for further progress on issues of concern to the United States.
- Not all American interests will benefit. Since investors will now be subject to "national treatment" in China, that they will lose some of the beneficial measures that, as foreigners, they previously enjoyed. U.S. textile manufacturers must expect an increase in textile imports from China as the Multi-Fibre Arrangement is phased out. Still, the adjustment costs for China from this agreement are far greater than the comparable costs for the United States, and the gains for the United States are far greater than the gains for China.
- Implementation of the agreement will not be easy. Those parts that can be implemented through central fiat, such as tariff reductions, should not prove problematic. But China's pledges to open its market to foreign distribution channels and to increase opportunities for foreign investors will encounter a variety of both practical and political difficulties. Still, there is another side to the picture. The fact that Beijing is joining the WTO out of its own national

interests, rather than simply under pressure from the United States, suggests that its central leadership will want China to fulfill its obligations. Moreover, the U.S. will be able to avail itself of a variety of remedial mechanisms under the WTO if China does not fulfil its obligations.

- Our trade imbalance with China will not be eliminated. The gap is now so wide that Chinese imports will have to grow far faster than exports simply to keep it from widening further in absolute terms. Nonetheless, American exports to China should experience substantial growth.
- We should not expect China's membership in the WTO to produce rapid improvements in civil or political rights in China, or an acceleration of political reform. Even so, further integration with the international economy will introduce new ideas into China, and the market-opening measures should promote the growth of both foreign and private involvement in the Chinese economy. If I were a betting man, I would wager that a China that has joined the WTO on the terms that have been negotiated is more likely to experience eventual political reform than one that was excluded.
- With China's entry into the WTO, trade issues between China and the U.S. will assume a new, multilateral dimension. As a major trading nation, China will now expect, understandably and appropriately, to help shape the agenda and the outcome of any new round of WTO negotiations. Beijing's views on the likely agenda of those negotiations -- especially on environmental and labor standards -- will almost certainly resemble those of other developing countries more than those of the United States. On the other hand, as a major beneficiary of integration with the global economy, China will be far less critical of the existing economic order than some of the poorest countries, or than it itself would have been twenty-five years ago.
- China's membership in WTO will open the way to Taiwan's membership in the same organization as a separate customs territory. This will not be a panacea for the problem of cross-Straits relations, but it will carry several benefits: enhancing Taiwan's role in the international community, providing an additional forum for contacts between Taiwanese and mainland Chinese officials, and possibly placing economic relations across the Taiwan Strait within the framework of the WTO.

Permanent NTR for China?

I have tried to give a fair and sober assessment of China's motives in joining the WTO, and the implications of its membership for the United States. On balance, I support China's membership in the WTO on the terms that have been negotiated, on

the grounds that the benefits and opportunities for the United States far outweigh the costs and risks.

Therefore, I also support granting China permanent NTR status. Doing so will enable the U.S. economy to realize the benefits of the agreement that the U.S. government negotiated. Conversely, denying China permanent NTR will not block China's membership into the WTO. Instead, it will simply prevent the United States from achieving greater access to the Chinese market, while giving that same access to all the world's other major economies.

Nor do I find some of the other arguments against permanent NTR to be persuasive.

- I do not regard this measure as an endorsement of the Chinese foreign and domestic policies with which we disagree. Instead, as noted above, it is a way of bringing one major aspect of China's international conduct -- its foreign economic policies -- under international regulation. If we seek to bring China into multilateral regimes on human rights and arms control, we should also seek to bring it into international regimes governing trade and investment. In particular, if this agreement is in our interest, we should not reject it because of Beijing's recent statement of policy toward Taiwan.
- Making China's NTR status permanent does not involve, in my judgment, any significant reduction in actual American leverage over China. The fact that we have renewed NTR or MFN every year since it was first granted in 1979 -- despite considerable controversy after the Tiananmen Crisis of 1989 -- suggests that the threat to revoke it has lost all credibility in China.
- Nor do I believe that granting permanent NTR will deny Congress a voice in the making of policy toward China. Although the annual deliberations over MFN or NTR have provided occasions for Congressional oversight over our China policy, it should be easy for Congress to devise other mechanisms for subjecting the Administration's policy toward China to regular and appropriate scrutiny.

One last point. The vote on permanent NTR for China should not be regarded as a referendum on globalization, although some are attempting to make it one. America's economic relationship with China does indeed exemplify many of the challenges and opportunities of globalization for both our countries. But denying permanent NTR to China will not halt the process of globalization, or make the challenges produced by globalization any easier for the United States to manage.